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RATE AGREEMENTS BETWEEN CARRIERS IN THE FOREIGN TRADE

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The marvelous development in shipping, coupled with the immense increase in the number and size of steamers engaged in the carrying trade of the world, resulted in many cases during comparatively recent years in either very unsatisfactory returns upon the investment or heavy financial losses. This condition of affairs forced the steamship owners almost the whole world over to endeavor to form agreements or understandings in their particular trades. These agreements have for their purpose the regulation of the general conduct of the business and deal with sailings, bills of lading, ports of call, and freight rates. They are the result of an evolution based on long experience gained in the practical operation of vessels of each particular trade, and represent the best-known method of conducting the business. Experience has demonstrated them to represent the most useful and practical method for the economical operation of the trades in the best interests of shippers and ship-owners alike.

The efforts to maintain even the rudimentary agreements of 30 years ago have been persistent. The forms employed and the results attained have been without exception a response to economic conditions and necessities rather than the result of studied effort by any interest or combination of interests to control a specific trade or trades. If these sundry agreements had not during recent years been fairly well maintained, rate wars would have forced the weaker lines to the wall, leaving the trade concerned entirely to the strongest, and to a virtual monopoly of its liner service. Under these agreements everything possible is done by the lines in each trade to encourage traffic. It is in their own interest to do so. A liner must serve the trade in which in good times and in bad it is engaged and for which it was specially built, as the ever alert "tramp" steamer owner is always ready to seize the opportunity of any remunerative employment for his steamer.

Shippers and receivers of freight desire many things from steamship lines, including equality of rates on the higher class commodities, and also proper variations in rates on grain, cotton and other exports and imports, where the commodity prices are subject to frequent and at times severe changes and are in competition with other countries. Regularity and frequency of sailings are also important. Shippers desire and obtain protection in ocean rates to or from a common foreign market against the ocean rates available to their competitors located in any other country.

Rate agreements and conferences were conceived in order to allow the steamship companies interested in the various trades to live and let live and to furnish to the shippers and the travelling public equal facilities to all on the same basis under similar circumstances and conditions. Among the many kinds of rate agreements between carriers in the foreign trade those more frequently used may be described as follows:

Passenger Minimum First- and Second-Class Rate Agreements.—The great majority of the steamers carrying first- and second-class trans-Atlantic passengers are operating under minimum rate agreements, the fastest and latest steamer taking the highest rate, the others being scaled down from that rate as a standard. Upon these minimum rates, so fixed, as much can be added for superior accommodations, including rooms with baths, and suites, as the steamship companies individually feel their space is worth. By this method differentials are established between the steamers based upon their attractiveness to the public, similar to that which prevails among the railroads operating between New York and Chicago, as by one route the ticket can be purchased cheaper than by another.

Third-Class Passenger Agreements.—Business is here dealt with under agreements which are to the effect that the parties thereto shall not carry more than their agreed fair percentage of the traffic, and when this is exceeded they automatically advance their rates so that the business will be equitably divided among the carriers interested. Without such agreements the steamship line that could afford to construct the larger and finer steamers would rapidly absorb the business of all those who were less fortunate in their capitalization and earnings, with the ultimate result that the business would largely drift into the hands of the wealthiest corporation which would then be in a position to demand unreasonably high rates.

Minimum Freight Rate Agreements.—Parties to these agreements simply undertake not to accept a certain defined class of commodities at less than certain agreed minimum rates, which commodities are generally confined to very bulky classes of traffic and upon which rates fluctuate in accordance with the supply and demand.

Fixed Freight Rate Agreements.—These are extensive agreements covering many classified articles with a fixed rate attached to each class or article. These rates are freely quoted to shippers, large or small, and are not frequently changed as they generally cover articles that move steadily but in small quantities.

Differential Freight Rate Agreements.—These agreements are built up from the above agreements but are used in a trade in which differentials are given on account of disabilities or advantages of certain ports or services as compared with other ports or services, and are intended to put the various parties on an equitable and fair competitive basis with each other so that all will have an equal chance of securing the traffic moving.

Freight agreements aim to distribute the traffic or the results of carrying the same among the respective carriers. In some trades it is necessary, in order to separate the sailings, to make them more regular and thereby give a dependable service to the patrons, and to have various small ports covered by regular departures, to make joint contracts so that the traffic can be properly divided among the respective carriers. In some instances, also, the results of carrying the traffic will be divided between the steamship companies interested in order to accomplish the above objects. This last method is commonly known as "pooling" but might more properly be called equalization of earnings. Its object is not in any way to restrict the movement of the traffic but to distribute it among the carriers interested in such a manner that regular services can not only be maintained at proper intervals of sailing, but also to enable carriers to secure sufficiently remunerative rates to maintain these regular sailings and to serve the smaller ports, all of which factors are greatly to the advantage of the merchant.

These agreements are advantageous to shippers, carriers and consignees as they establish stable and uniform rates to all shippers and consignees large or small. Shippers and merchants desiring to do business with foreign countries cannot conduct their trade successfully in such markets unless they have stable rates on which they

can depend and which enables them to contract ahead, as well as assurance that their competitors cannot obtain any lower rates. This situation can be brought about only by coöperation between the steamship lines on practically the same basis as exists among the railroads, thus maintaining and assuring equal and reasonable rates to all merchants and shippers.

Uniform rates protect the small against the large shipper and relieve all shippers from the effects of underhanded discrimination. To accomplish this most desirable end agreements and conferences are absolutely necessary, since unrestricted competition based on the survival of the fittest tends to restrict the development of the lines and in the end results in monopoly. Furthermore, competition for any class of traffic when the question of rates is eliminated, as is the case when the rates are uniform, spurs the various lines on to give more and better facilities to passengers and freight, with the result that the passenger as time goes on travels with an increasing degree of comfort and freight is offered a much more regular service.

In considering the necessity for agreements in conjunction with the operations of steamship lines, the striking differences between the conditions incident to the operation of those trades and the business of railroads must be kept clearly in mind. Railroads obtain their franchises from the state, which permits them to lay their tracks along the lines of existing or potential trade centers, and to acquire rights of way by the exercise of eminent domain. Without these special privileges a railroad could not be built. A road which has been built in the exercise of such franchises becomes in duty bound to maintain a regular and continuous service, as efficient as the needs of the trade along the line require and the rewards of the business will permit, and do not have the risk of competition from tramp steamers. The conditions under which transportation by sea is conducted are totally different. The ocean is free to all and ships are not fixtures in any trade, and are not constrained by any fixed line or route. They have received no public aid or franchises, and may come and go by whatever route or in whatever direction they please. Their only incentive to engage in any particular trade is to develop that trade to such a point that it will yield a profit which will justify a regular and continuous service.

The great bulk of the foreign trade of the United States is today carried by regular lines working under agreements of various kinds

covering their particular trades. These agreements or understandings have been without exception the natural outgrowth of intolerable competitive conditions rather than the result of studied effort on the part of any interest or combination of interests to control particular branches of trade. If such agreements had not been reached, the coöperation of a number of lines for the development and handling of the trade would have been displaced eventually by an absolute monopoly, resulting in the weaker line being forced to the wall and leaving the field entirely to the strongest.

Few of the steamship lines operating from this country, except those engaged in the trans-Atlantic trade, have as yet reached an advanced state of development, with vessels of a high class carrying both freight and passengers, with fixed and regular sailings, and with a convenient and complete system of terminal facilities. The services are operated for the most part with an efficient type of cargo vessel of fair speed and large carrying capacity, but yet of moderate size and cost as compared with the highly developed vessels employed in the trans-Atlantic services. The services in the long-voyage trades are still undeveloped in comparison with the lines serving the same territory from Europe, in which traffic larger, faster, and better types of steamers are used, on account of the large passenger traffic from Europe. Although the services from this country have been sufficient for the demand up to the present time, they must be improved in the future both in the speed and regularity of sailings. This will be possible only if the shipowner be allowed to earn enough to pay for improvements, and this can be accomplished only by the steamship lines operating under intelligent and reasonable working agreements.

In the now thoroughly established trans-Atlantic trade, it is not necessary for the lines acting in coöperation to determine or limit sailings in this way. But in new and undeveloped services it is necessary to agree on sailing dates and ports of discharge, for without regularity and frequency of service, American merchants, manufacturers and shippers would be at a decided disadvantage in competition with European merchants, who enjoy a more frequent and better developed service from European ports to ports overseas. Shippers must be able to know with some degree of certainty when their shipments may be made and when they can expect them to be delivered to purchasers in distant countries. Under unrestricted

competition, several ships may sail the same day or the same week for the same port or ports, and, consequently, there may be no other sailing for a considerable period. When lines are working in coöperation they agree not only as to the dates of sailing but also as to the ports, thus avoiding the waste involved in several ships calling at ports which require only one ship and giving an excessive tonnage on one date and a corresponding lack of tonnage at other times.

It should be remembered that a large proportion of the shipments from the United States to foreign countries come from the interior. With regular sailing dates goods arriving late and missing one steamer will be delayed only a short time since they can go forward on the next boat. The loading and delivery of cargoes are also greatly facilitated by coöperation, since in this way accumulation of goods, unnecessary port charges and loss of time are avoided. In a word, the result of an agreement as to sailings is to enable shippers to fill their contracts promptly, to build up new business, and to compete successfully with merchants in Europe.

The general opinion of merchants, steamship owners, and agents seems to be that agreements as to rates are desirable and of advantage to both shipowners and shippers, provided the rates are reasonable and available to all shippers under similar conditions and circumstances. Shipowners operating regular services are entirely dependent on the business of shippers, and it is therefore their aim to establish only reasonable rates, based on the condition of the general world's freight markets and the value of tonnage. Their desire is to maintain rates on a remunerative basis and yet permit their shippers to compete successfully with shippers of similar commodities in other countries.

The fundamental principle of shipping is "supply and demand," and owners appreciate the fact that the ocean freight rate is frequently an important factor in the transaction, and therefore endeavor to keep rates on a basis to encourage trade. Generally speaking, rates, particularly in the long-voyage trades, are fixed in competition with the rates of lines trading to the same points from foreign countries and are on a parity with those rates as nearly as conditions will permit. Nearly all the important foreign trades in which the merchants of the United States are interested are subject to competition by other regular lines and tramp vessels. The fear of such opposition and the certainty that exaggerated rates would

lead to further competition tends to keep the rates of the lines on a reasonable basis. No steamship line is ever immune from attack, and the history of every coöperative service is that it has grown from a single line or from a small number of lines to its present size and position by the constant aggression and admission of other competing services. Ocean freight rates on merchandise to or from the United States, whether in conference trades or not, are dependent upon the service required and generally rise or fall with the rates to and from other countries. The trade and shipping conditions of the whole world govern ocean rates to and from the United States as well as to and from other countries.

Neither the large nor the small shipper is ever at the mercy of the steamship lines if rates advance to a point which may be thought to be unreasonable. If the rates exceed or even approximate the rates at which tramp steamers can be chartered, large shippers of special commodities immediately protect themselves by the employment of tramps for the transportation of their shipments; and small individual shippers, who cannot accumulate merchandise in quantities sufficient to justify the chartering of tramp steamers, are at such times served by chartering brokers, who are always ready, when rates by the regular lines advance to such a point that a profit can be made by chartering, to lay chartered steamers on the berth, themselves accumulating the shipments of numbers of small merchants, who by this means can always protect themselves against oppression. The protection of the small shipper lies in the liner's dependence upon him, just as the liner's protection is the recognition by the small shipper of his dependence upon the liner. The present large shippers and importers were formerly men of small operations. It is the constant experience of liners that the small shipper of today becomes the large and powerful shipper of tomorrow; and the line which would neglect or oppress him when weak can hardly expect his support when he becomes strong.

Looking at the case of the small exporter we also find a natural condition of trade operating to keep rates reasonable. With exports as with imports, the consumer pays the freight. This freight cannot be more than the consumer is willing to pay. The steamer's freight rate must, therefore, be such as will enable the American exporter to sell his products in competition with the products of other countries. The liner, depending largely on the higher class

freight for its profits and being regulated as to bulk cargo by the rate for tramp tonnage, would find it destructive of its interests to restrict or ruin the trade in those commodities upon which its greatest profit depends.

It is not to the advantage of the steamship owner to make the large shipper still larger, as the more shippers the better. The larger shipper of a single commodity is frequently in a position to charter steamers, in which case the liner would lose some business which might be essential to the maintenance of the regular service. Therefore, the liner must make a rate necessary to secure the traffic, and would then give the same rate to a smaller shipper of the same commodity under similar conditions. The class of merchandise of these large shippers is not, however, commonly handled by the small exporter. The large shippers ship their own product, and, being in entire control of it, they often decline to sell their product to small exporters who might desire to trade in it abroad.

The class of merchandise shipped by the small exporters is ordinarily of an entirely different nature. It consists of articles of greater value, which can readily pay an increased rate of freight for a regular service. In asking a higher rate for such products, the attitude of the steamship lines is similar to that of railroads, which are permitted to charge a higher rate for less than carload lots than they do for full carload shipments, and to have classifications based upon the nature and value of the goods shipped under which they charge higher rates on goods of higher value. If the large shipments referred to should not be secured, the smaller shippers would have to pay an enhanced rate of freight and would also suffer inconvenience from the necessary curtailment of sailings which would result from decreased shipments.

If rates should be unduly advanced, the foreign buyer, who pays the freight, would decline to purchase our products. The safety valve against the charging of exorbitant freight rates is in reality the lines' own interest to do everything in their power to foster trade, and to do nothing which would have a tendency to restrain it. The fear of any general or large combination is without foundation as there are about 23,500 free tramp steamers operating entirely under the law of supply and demand. If freights from any country should at any time be upon an unreasonably high basis, tramp tonnage would at once be diverted to that trade as tramp steamers are

the great regulators and governors of ocean freight rates, and their existence makes it impossible to maintain unreasonably high rates in any trade for any length of time.

The nature of the steamship business is so different from that of railways that it would be injurious, not only to shipowners but to shippers and consignees, to place any limitation upon the absolute freedom of carriers to change their freight rates as the conditions of the freight market reasonably required. Ocean freight rates vary not merely from month to month, but from day to day and from hour to hour, especially with reference to the great staples which are traded in on the exchanges. The difference of a fraction of a cent in the freight rate may mean the loss of a contract to a merchant or manufacturer at an interior point of the United States who is competing with manufacturers and merchants in other countries. Should the lawmakers of the United States decide that ocean transportation must come under the jurisdiction of some authority, or authorities, in Washington, I most strongly urge that this important question should be considered very carefully before any laws are passed, because, barring a certain amount of supervision and possible publicity to assure reasonableness, I am confident that any regulation on the part of the Government which would make the immediate alteration of rates impossible in a situation where we are competing with the world's markets would result in a loss of trade and commerce that would be more harmful to the merchants than to the steamship owners who can always send their steamers into other trades.

After many years of experience in the trans-oceanic freight and passenger trades, with and without agreements, I am convinced that reasonable and proper steamship agreements are advantageous to shippers and consignees alike. If we are to maintain our commanding position as an export country, and to develop our trade still further in new and distant countries, methods substantially similar to those now in existence are essential.